UNIVERSITY OF CAMBRIDGE
Department of Land Economy

Untangling the Web: The role of Offshore Financial Centers in Real Estate

Name: Kioko Nzoka Muasya

College: Wolfson College

Supervisor: Dr. Thies Lindenthal

MASTERS IN REAL ESTATE

UNIVERSITY OF CAMBRIDGE
Department of Land Economy

DISSERTATION DECLARATION FORM (FORM A)

I hereby declare that this dissertation:

- is the result of my own original work and includes nothing which is the outcome of work done in collaboration except where specifically indicated in the text and bibliography;
- does not exceed the word limit of length (word count) prescribed in the Special Regulations of the Masters examination for which I am a candidate;
- is not substantially the same either in whole or in part, as any dissertation that I have submitted, or, that is being concurrently submitted for a degree or diploma or either qualification at the University of Cambridge or any other University or similar institution;
- that I agree to my project being run through plagiarism detection software and that I have read the University's guidance on the matter available at: http://www.admin.cam.ac.uk/univ/plagiarism/students

Total word count:	11,256

Name: Kioko Nzoka Muasya

Signature:

Date: July 17, 2018

ABSTRACT

This paper aims to promote a greater understanding of Offshore Financial Centers and the role that they play in real estate by rendering explicit pertinent questions such as what are the most dominant Offshore Financial Centers, who is using these Offshore Financial Centers and how and where these Offshore Financial Centers are being used.

In answering these questions, we find that Offshore Financial Centers are no longer exotic and peripheral players. Rather, they have become increasingly mainstream and part of the ordinary dealings when transacting real estate in prime locations. Using data from the offshore leaks database supplemented by FDI data, we identify the British Virgin Islands as the most dominant Offshore Financial Center. We note that most companies registered there have their ownership in Hong Kong. Given that China is the largest holder of FDI stock in Hong Kong, the results would suggest that much of the funds finding their way into the BVI are of Chinese origin.

Using data from the UK Land Registry, we determine that over 82,000 properties in the UK are held through structures domiciled in Offshore Financial Centers. These properties have an average transaction price of £2.3 million against a national average value of £230k. We determine that London has the highest number of properties transacted through Offshore Financial Centers representing just over 50% of all properties transacted through Offshore Financial Centers.

We identify the BVI as the largest domicile for Special Purpose Vehicles holding property in the UK. This, taken with the foregoing, suggests that Chinese money funneled through Offshore Financial Centers is at least partly responsible for the acquisition of prime real estate in London. Within London, we note that the properties transacted through Offshore Financial Centers are concentrated within an area of roughly 40 square kilometers in what is considered Prime Central London.

Contents

List of Figures and Tables

List of Acronyms used

Acronym	Detail
BOT	British Overseas Territory
BVI	British Virgin Islands
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FSF	Financial Stability Forum
ICIJ	The International Consortium of Investigative Journalists
NGO	Non-governmental Organization
OFC	Offshore Financial Centers
SPV	Special Purpose Vehicles

1. INTRODUCTION

Offshore Financial Centers (OFC's) have attracted increasing attention and scrutiny in recent months, more so with the release of the Paradise, Bahamas and Panama papers (the "offshore leaks"). The offshore leaks portray how deeply OFC's financial systems are entangled with the overlapping worlds of political players, private wealth and corporate giants.

Implicated in the latest series of offshore leaks are some of the most recognizable names in investing, politics and business such as Blackstone, which used offshore companies, and a series of complex loans to minimize its tax liability on buying, letting and eventually selling commercial buildings. These include properties such as Chiswick Park, a 13-hectares (32-acres) site that is home to the UK headquarters of Pokémon, Axa, Avon and the shopping channel QVC. The Queen of England's private trust, Duchy of Lancaster, invested in funds in the Cayman Islands and Bermuda. Duchy of Lancaster invests primarily in commercial, agricultural and residential properties.

The release of the offshore leaks has ignited international attention and subsequently action against OFC's spearheaded by various organizations including the EU, the OECD, the Financial Action Task Force (FATF) and the Financial Stability Forum (FSF).

As an example, on December 5th, 2017, the Council of the European Union (EU) released a list of non-cooperative jurisdictions for tax purposes (The "Blacklist") containing 17 countries (EU- Secretariat, 2017). The EU said that the countries had failed to match up to international standards. Of the OFC's with links to the UK – Bermuda and the Cayman Islands, along with Guernsey, Jersey and the Isle of Man – were placed on a "grey list" of countries that have committed to reform their tax structures to ensure that firms are not simply using their 0% corporate tax rates to shield their profits. (Boffey, 2017). On the other hand, OFC's have always maintained that they have instituted laws and regulations that went beyond the requirements for preventing abuses such as tax evasion, money laundering and being conduits for hiding illicit wealth. (Houlder, 2016). Those supporting this sentiment, especially in regard to British Overseas Territories (BOT's) , include former British Prime Minister David Cameron who asserted that UK's assorted Crown Dependencies and Overseas Territories were cooperative in terms of the reporting standard, the exchange of tax information, and the register of beneficial ownership. (Stone, 2016)

This interest in OFC’s is reflective of their disproportionate role in the world economy, and in particular their centrality to many of the important current policy debates in relation to tax evasion, money laundering and tax avoidance activity. However, there are very few systematic academic studies that examine the nature and role of OFC’s more so in relation to real estate.

This paper therefore seeks to promote a greater understanding of OFC’s and the role that they play in real estate by rendering explicit pertinent questions such as:

- What are the most dominant OFC’s,
- Who is using these OFC’s; and,
- How and where are these OFC’s being used in relation to real estate.

Section 2 examines the existing body of knowledge including how OFC’s are defined and their impact, and role in relation to real estate. Section 3 describes the data and how it was analyzed. Section 4 assesses the offshore leaks database data and identifies the British Virgin Islands (BVI) as the most dominant OFC. Section 5 takes a deeper dive into the BVI assessing users of the BVI, why the BVI is so popular, available legal structures in the BVI and their uses, and reasons for using the BVI to structure real estate transactions. The results suggest that China through Hong Kong is the largest user of BVI Special Purpose Vehicles (SPV’s) and source of FDI inflows into the BVI. Section 6 relies on data from the UK Land Registry on transactions where the property is owned by a foreign company. The results indicate that most properties held by companies in the UK are owned through the BVI.

2. LITERATURE REVIEW

Despite the important role that OFC's serve as financial intermediaries for cross-border capital flows (LANE, 2011), the literature on them is still surprisingly scant more so in relation to their role in real estate. In this section, we examine relevant antecedent work on OFC's.

2.1. WHERE IS OFFSHORE?

Even though various attempts have been made at defining OFC's, there is still no consensus among scholars and practitioners on the exact definition of an OFC. Many variants of the term have been used, including Tax Haven, Offshore, International Financial Center (IFC), International Banking Center (IBC), International Banking Facilities (IBF's), and Offshore Banking Center. All these terms broadly refer to the same concept of an OFC.

Studies attempting to define OFC's are summarized below.

Study	**Definition**
(Dufey and Giddy, 1985)	Offshore banking is financial intermediation performed (primarily) for non-resident borrowers and depositors. The principal attraction of an offshore banking center (for banks as well as participants) is simply the absence of intrusive and expensive official regulation, including taxation and controls over the portfolio decisions of the banking community.
(McCarthy, 1979)	"Offshore centres are defined as cities, areas or countries which have made a conscious effort to attract offshore banking business, i.e., non-resident foreign currency denominated business, by allowing relatively free entry and by adopting a flexible attitude where taxes, levies and regulation are concerned."
(Park, 1982)	"International financial centres are distinguished from their domestic counterparts by three important characteristics. First, international financial centers deal in external currencies, which are not the currency of the country where a center is located. Second, offshore centers are generally free of the taxes and exchange controls that are imposed on domestic financial markets. […] Third, offshore financial centers are primarily but not exclusively for non-resident clients.
(Johnston, 1982)	An offshore banking centre may be defined as being typically a small territory in which the conduct of international banking business is facilitated by favourable and/or flexibly administered tax, exchange control and banking laws, and in which the volume of banking business is totally unrelated to the size and needs of the domestic market. Offshore banking activity is essentially entrepôt business with foreign currency funds being deposited in a given centre from one foreign source and then on-lent to another foreign borrower."
(Errico & Musalem, 1999)	"OFCs are jurisdictions where offshore banks are exempt from a wide range of regulations which are normally imposed on onshore institutions."
(Zoromé, 2007)	An OFC is a country or jurisdiction that provides financial services to non-residents on a scale that is incommensurate with the size and the financing of its domestic economy.

Dharmapala and Hines (2006)	Provides common characteristics of OFC's as being: • small, mostly island countris, • Are on average substantially more affluent than are non-OFC's . • Tend to be located in closer proximity to major capital exporters, and have a larger fraction of their population located within 100 km of the coast. • Tend to have a relatively sophisticated communications infrastructure, as measured by the number of telephone lines per capita. • Are poorly endowed with natural resources: the value of their subsoil assets per capita is much smaller than that for the typical non OFC country. • more likely to have British legal origins and less likely to have French legal origins than • likely to use English as an official language and • Have parliamentary rather than Presidential political systems. • Likely to be dependent territories, rather than sovereign states (as reflected in a lower rate of membership in the United Nations (UN).

Table 1 Summary of academic studies on the definition of OFC's

Although no consensus has been reached on the definition of an OFC, the above studies identify at least on one or more of the following three distinctive characteristics of OFC's:

I. They offer financial and ancillary services targeted primarily at non-residents;
II. They offer a favourable regulatory environment including low supervisory requirements and minimal information disclosure; and,
III. They offer low-or zero-taxation.

For the purposes of this study we will use the above three characteristics as our frame of reference when defining OFC's.

While the classification of countries based on the foregoing criteria inevitably involves some degree of subjectivity, there are approximately 40 countries and territories that appear in most published lists of OFC's. These are presented below:

1. Andorra 2. Anguilla 3. Antigua and Barbuda 4. Aruba 5. Bahamas 6. Bahrain 7. Barbados 8. Belize 9. Bermuda 10. British Virgin Islands 11. Cayman Islands 12. Cook Islands 13. Costa Rica 14. Cyprus 15. Dominica 16. Gibraltar 17. Guernsey	18. Hong Kong 19. Ireland 20. Isle of Man 21. Jersey 22. Lebanon 23. Liechtenstein 24. Luxembourg 25. Nauru 26. Netherlands Antilles 27. Niue 28. Panama 29. Samoa 30. Seychelles 31. Singapore 32. St. Lucia 33. St. Vincent and the Grenadines 34. Switzerland	35. Turks and Caicos Islands 36. Vanuatu 37. Macao 38. Malaysia (Labuan) 39. Malta 40. Marshall Islands 41. Mauritius 42. Monaco 43. Montserrat 44. St. Kitts and Nevis

Table 2 List of OFC's (Zoromé, 2007)

2.2. Reasons for using OFC's to transact real estate

There is mounting anecdotal evidence of a connection between OFC's and real estate investments by non-residents in prime locations such as London and New York (D.Dorling, 2014); (Hudson, et al., (2014)) ; (Shaxson, 2013). Due to structural transformations in the global political economy, there is surplus capital, or 'wall of money', which finds its way into real estate investment, as a spatio-temporal fix (Harvey, 2001) in the super-prime real estate of global cities and a select number of other places. The purchase of this real estate has increasingly been conducted through SPV's domiciled in OFC's (Fernandez, Hofman and Aalbers, 2016).

Structuring such transactions through SPV's domiciled in OFC's is done for several reasons. (Fernandez, Hofman and Aalbers, 2016) identifies several reasons. Firstly, the transaction costs on purchasing or selling property can easily be reduced by structuring the transaction in such a way that the SPV holding the asset is the one that is sold- essentially transforming bricks and mortar into an intangible asset. This exempts the real estate transaction from all stamp duties on real estate acquisitions in the UK (4%) and estate taxes in the US.

Secondly, SPV's domiciled in OFC's help reduce costs for property related activities that include maintenance and interest from rental income. Given that the tax on rental income is around 24% in the UK, buying property for rent through an SPV lowers taxes substantially. This structure also allows for intra-firm loan arrangements, such as 'thin capitalization', a method to avoid taxes.

Thirdly, a foreign registered SPV allows for the recovery of the VAT on the acquisition of real estate in the UK. Fourthly, offshore SPVs are exempt from capital gains taxes (15% and 35% respectively for individuals and corporations in the US) in most other jurisdictions. This means that any profits resulting from real estate transactions in the UK can be enjoyed almost tax-free in jurisdictions such as the BVI and Jersey, if the SPV is formally managed and controlled offshore.

Finally, the offshore infrastructure is used to channel illicit money flows and assist money laundering largely the result of regulatory arbitrage. Real estate purchases are not treated in a similar way as financial assets in terms of the requirements to ''know your customer (KYC)''. Most countries have regulations requiring banks to take all reasonable steps to ensure that they do not knowingly or unwittingly assist in hiding or moving the proceeds of corruption. However, the regulations only apply to private banking and banking services and not to real estate transactions. This loophole in the regulations means that acquiring real estate is the only legal means for politically exposed persons to park their wealth in countries such as the UK. In order to hide the beneficial ownership they need to use a foreign SPV. For the US, this ambiguity in the Bank Secrecy Act towards real estate is the result of lobbying by real estate agents in the wake of the Patriot Act.

2.3. OFC's USED TO TRANSACT REAL ESTATE

There are limited studies, the existing ones mostly produced by Non-governmental Organizations (NGO's) and investigative journalists, that identify where the SPV's that acquire real estate in prime locations such as London and New York are based.

A study by Transparency international in 2014, using data from the land registry on properties registered to overseas companies, found that the BVI is the preferred location to register a company for real estate purchase purposes (Transparency International UK, 2015). The study found that 34% of all foreign-owned properties were domiciled in the BVI followed by Jersey 14%, Isle of Man 9%, Guernsey 8% and Panama 3%.

Similarly, a study a study by the international consortium of investigative journalists in cooperation with The Guardian (Leigh, et al., 2012)examining FDI flows into the UK, found that the inflow of foreign capital into the UK real estate market was £7 billion in 2011, of which £ 3.8 billion originated in the BVI. Additionally, they found that this figure was up from £2.7 billion in 2010 and £ 1.5 billion in 2009.

(Fernandez, Hofman and Aalbers, 2016b), examining FDI flows into US real estate found that the UK Caribbean Islands were one of the largest global offshore investors in US real estate and that there was an acceleration of the growth rate of the inward FDI stock in the US from the UK Caribbean Islands.

2.4. IMPACT OF OFC's

There is a body of literature highlighting the negative role of OFC's in facilitating tax evasion, tax avoidance, money laundering, illegal flight of capital, degradation of regulation, instability and economic underdevelopment. (Hampton, 1996); (Hampton & Christensen, 2002); (Oxfam, 2000); (Palan, 2002); (Sikka, 2003); Baker, 20 (Baker, 2005); (Christensen, 2006); (Stark, 2009); (Palan, et al., 2010), (Slemrod & Wilson, 2006).

In relation to real estate, prior studies have generally characterized the impact of OFC's from the inequalities created through the private wealth funneled through them. (Sassen, 2014) argues that the use of OFC's has led to "expulsions", a term coined to describe the displacements and socio-economic inequality due to systemic changes in the global economy and unequal access to resources. These private wealth investments exacerbate inequalities ((Hamnett, 2003); (Harloe, et al., 1992); (Sassen, 1991)) and promote super-gentrification in global cities ((Butler & Lees, 2006); (Lees, 2003), the immediate effect of which is price increases and competition in the other segments of the housing market (Fernandez, Hofman and Aalbers, 2016).

Socially, it has been argued that the high-end property purchased through OFC's leads to a lower participation in the ''full range of economic, political, social, and environmental responsibilities'' of a community. The influx of foreign investors transforms the culture of places and the sense of ownership of the city (Hay & Muller, 2012). Reciprocity, social responsibility and engagement with local civic and cultural life are therefore eschewed (Atkinson & Burrows, 2014).

Economically, as a lot of residential property bought through OFC's is held primarily as an investment, it remains unoccupied. This demographic change reduces the client base for local businesses in places such as London. (Fernandez, Hofman and Aalbers, 2016).

2.5. Conclusion

Despite their significance and ever-increasing role, academic research on OFC's is still surprisingly scant. There have been no academic works, to the best of our knowledge, that have primarily focused on analyzing OFC's and the role that they play especially in relation to real estate. This paper therefore seeks to fill this gap by creating an awareness of OFC's and the role that they have played in shaping the real estate landscape. It seeks to lay bare the motivations and advantages accorded to investors in using OFC's, the effect of these OFC's on domestic real estate markets, and who, how and where these OFC's are being used to transact real estate.

3. DATA AND METHODOLOGY

The study relies on two primary sources of data. The Offshore Leaks Database and the Overseas Companies Ownership Data from HM Land Registry, each of which is described in further detail below.

3.1. Offshore Leaks Database

The Offshore Leaks Database contains information on more than 785,000 offshore entities that are part of the Paradise Papers, the Panama Papers, the Offshore Leaks and the Bahamas Leaks investigations and contain data including the jurisdiction of incorporation, beneficial ownership, country of beneficial ownership of the entities for more than 200 countries and territories. The International Consortium of Investigative Journalists (ICIJ), a global network of more than 200 investigative journalists and 100 media organizations in 70 countries, created and maintains the database.

The ICIJ obtained the data through four massive leaks as detailed below.

Data	Source	Date obtained by ICIJ
Paradise Papers	Appleby – leading offshore law firm in Bermuda, Cayman Islands and Hong Kong	2017
Panama Papers	Mossack Fonseca - Panamanian law firm and corporate service provider	2016
Bahamas Leaks	Official corporate registry of the Bahamas – a government entity.	2016
Offshore Leaks	Portcullis Trustnet (now Portcullis) and Commonwealth Trust Limited – Singaporean and BVI law firms and corporate service providers.	2013

Table 3 Offshore leaks database – source of data

This data was obtained from the Offshore Leaks Database in CSV format and reviewed for completeness. To clean up the data, entities that did not have the beneficial ownership field populated were excluded.

The Bahamas leaks data was excluded in its entirety as it did not provide sufficient details on the beneficial ownership of the entities listed there. Additionally, unlike all the other sources which were obtained from corporate service providers with multi-jurisdictional operations, this set of data was obtained from the official government registry of the Bahamas and contained only entities registered in the Bahamas. This would have had the effect of biasing the combined data sources towards entities listed in the Bahamas.

Data from the offshore leaks database was analyzed to identify the major OFC's based on the number of entities registered in them and to identify which countries primarily use these OFC's. Results from this analysis were corroborated with statistics on Foreign Direct Investment (FDI) flows and stock to build a more robust case. These findings are summarized in Chapter 4.

From the results, we identify the BVI as the largest OFC by number of entities registered, FDI flows and FDI stock. Chapter 5 therefore takes a more in-depth dive into the BVI, identifying the largest source and destination for bilateral FDI, the legal structures available in the BVI and how these are used from a real estate perspective, and the competitive advantages of using the BVI.

3.2. Overseas Companies Ownership Data From HM Land Registry

This dataset is a list of freehold or leasehold title registrations held by HM Land Registry, covering England and Wales, where the registered legal owner is an overseas company (a company incorporated outside of the UK). Titles registered by private individuals, UK companies with an overseas address and charities are excluded from the data.

The source data was obtained from citizens and conveyancers supplied on registration deeds and documents from 1999 onwards. HM Land Registry did not routinely record the country of incorporation in the register before January 1999.

The key data fields and how these were utilized in the analysis are detailed below:

Field	Description
District Name	Name of an administrative district created since local government reorganisation in 1974. Administrative district also covers the London boroughs, unitary authorities and (for HM Land Registry's purposes) the Isles of Scilly parishes.
County	Name of current county in England and Wales.
Region	Name of a geographic region which comprises one or more current counties, former counties or unitary authorities or any combination of these. The names and extents of the regions are the economic planning regions used by various bodies.
Postcode	Code which is a combination of up to 7 letters and numbers (plus one embedded blank), which defines different levels of geographic units. It is

	part of a coding system created and used by the Post Office across the UK, to facilitate the mail service.
Price Paid*	The sale price stated on the transfer deed.
Country Incorporated	The name of the country where the company is incorporated.
Proprietor name	Name of a company, corporate body, local authority or other organisation or establishment registered as the owner of the property.

* Roughly only a third of the properties had a price stated.

Table 4 Land registry data field description

The data contained 97,000 entries obtained as a CSV file. Of the 97,000, only roughly 27,000 properties had the sales price of the properties indicated - the total of which was just over £59 Billion.

We analyzed the overseas company ownership data and identified the top OFC’s used to hold property in the UK. Using Microsoft excel and Bing Maps, we plot the postal codes for the properties transacted through OFC’s to identify their spatial distribution within the UK.

4. INSIGHTS FROM THE OFFSHORE LEAKS DATABASE

4.1. Most Popular OFC's

The Offshore Leaks database was analyzed to identify the most dominant OFC's. Figure 1 presents the most dominant OFC's based on the number of entities registered there. Based on this analysis, the most dominant OFC with more companies registered there than any other jurisdiction is the BVI. Unsurprisingly, the countries that appear on this list are quite similar to what appears on most published lists of OFC's as contained in Table 2. The only exceptions being the small Island of Niue and the state of Nevada, which are new entrants from the Offshore Leaks database.

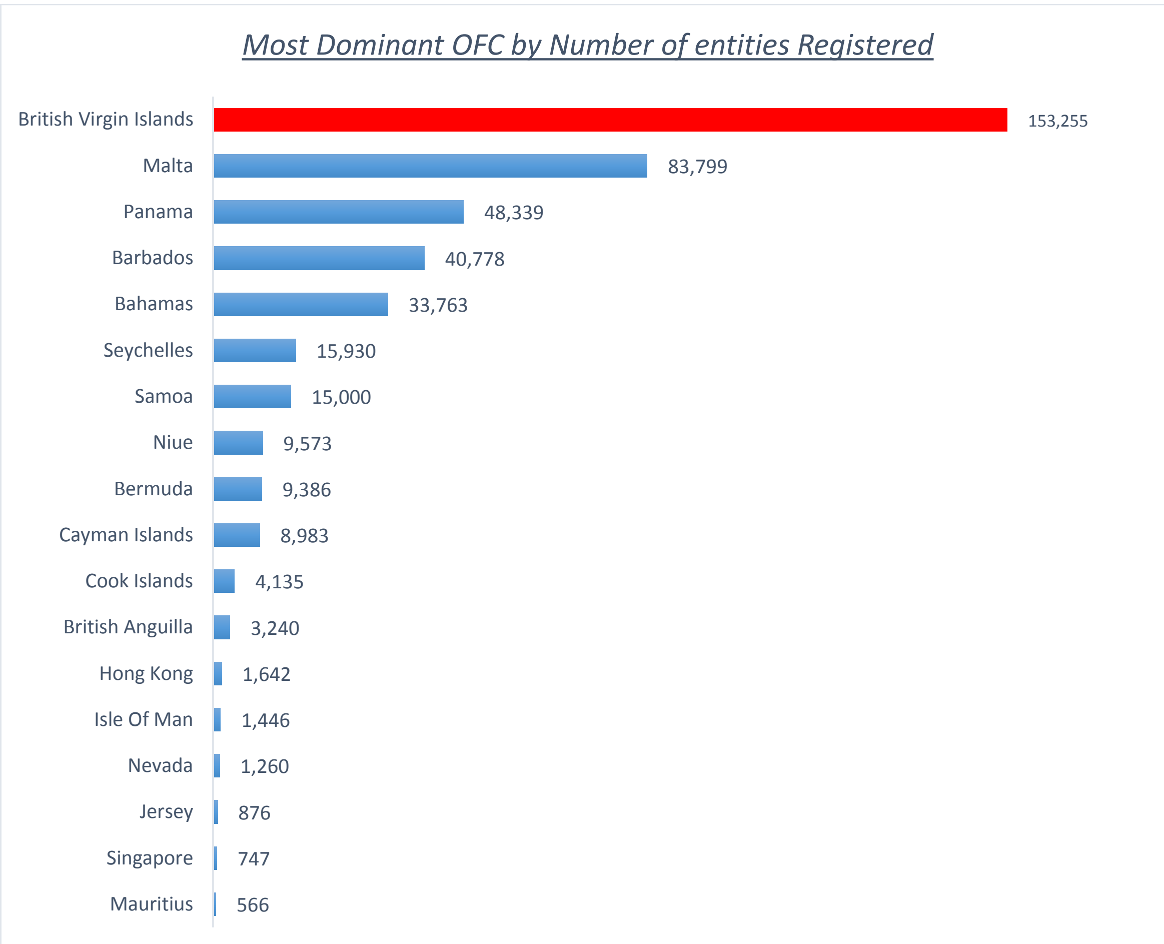

Figure 1 Most popular OFC by number of entities registered - Offshore leaks Database

To paint a more complete view of OFC activity and dominance, Figure 2 ranks OFC's by FDI inflow statistics from the World Bank. Noteworthy is that while ranking OFC's by FDI inflows does lead to a change in the rankings for the other OFC's, the BVI is still ranked highest further demonstrating its dominance as an OFC.

The BVI is therefore discussed in detail in a subsequent section of this paper -Section 5 - THE CASE OF THE BRITISH VIRGIN ISLANDS below.

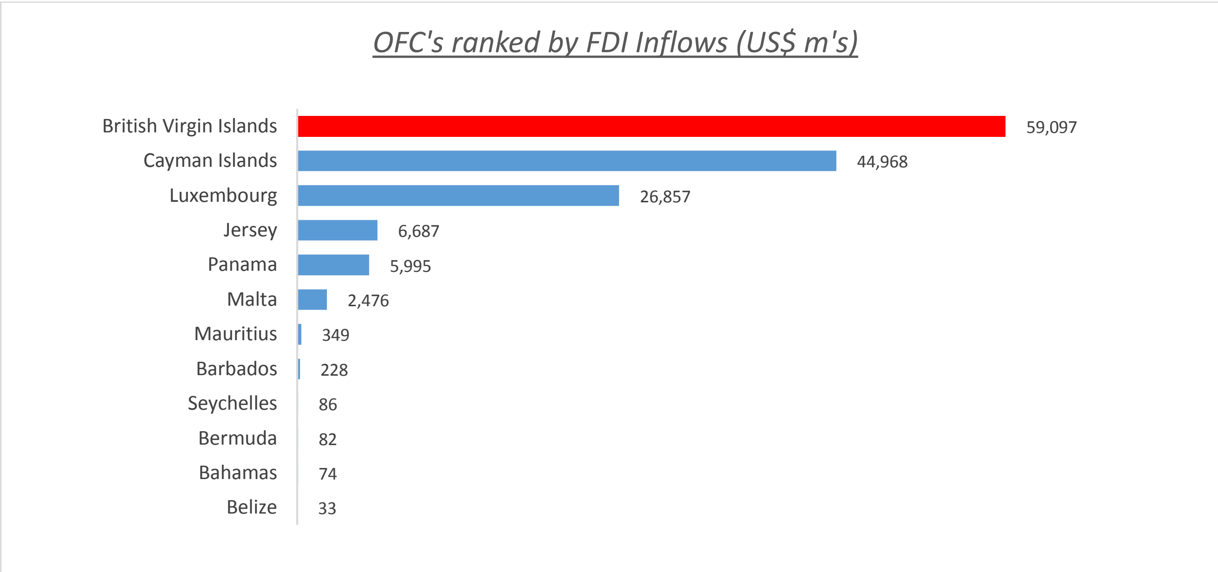

Figure 2 OFC's ranked by FDI inflows (source: World Bank 2016 data)

4.2. Who is using these OFC's

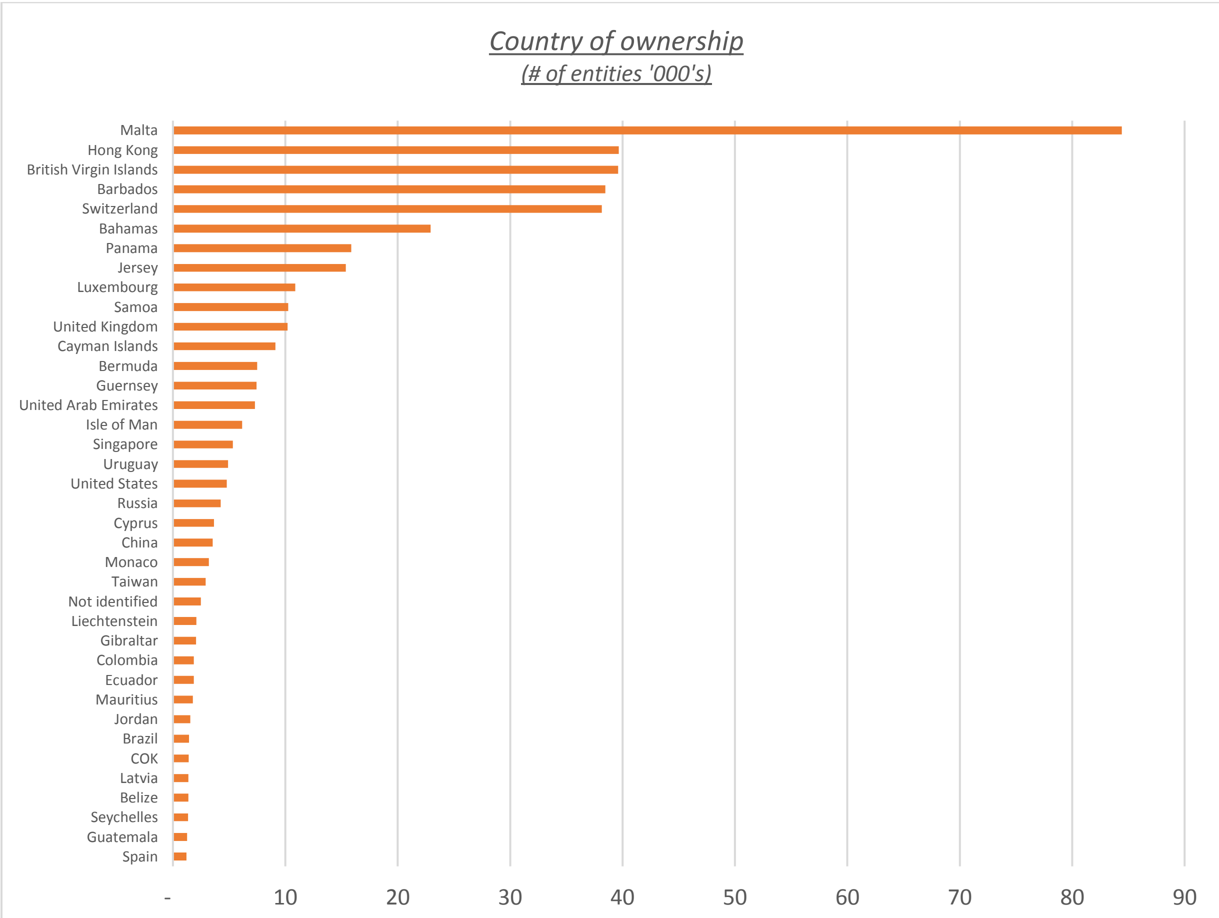

Figure 3 Country of ownership of entities registered OFC's based on the Offshore Leaks Database

Figure 3 presents the countries of ownership of the entities registered in the OFC's based on the Offshore Leaks Database. Noteworthy, is that majority of the countries listed as being the counties of ownership are themselves OFC's.

Malta, in particular, stands out in that it is listed as being home to more entities registered in OFC's than any other country in the world including larger more established economies. The World Bank lists Malta's GDP as being US$ 11 billion in 2016. In contrast the United Kingdom's GDP is listed as US2.6 trillion for the same period. Additionally, as illustrated in Figure 2, Malta had significantly less FDI inflows when compared to other OFC's over the same period. This serves to illustrate a significant and distinct role played by some OFC's such as Malta. These OFC's serve as secrecy of flow through jurisdictions, serving to convolute the beneficial ownership of the eventual entity.

In an attempt to define this distinct role played by OFC’s, (Garcia-Bernardo *et al.*, 2017) coined the terms *sink OFC’s* – to denote jurisdictions that attract and retain foreign capital; and, conduit-OFC’s as jurisdictions that act as intermediate destinations to sink-OFC’s.

4.3. Conduit Vs Sink OFC’s

(Garcia-Bernardo et al., 2017) identify OFCs based on the global corporate ownership network, in which over 40 million firms (nodes) are connected through 71 million ownership relations (lines). This concept is based on the difference between “sink” OFCs and “conduit” OFCs: the first ones “attract and retain foreign capital”, instead the second ones are “attractive intermediate destinations in the routing of international investments and enable the transfer of capital without taxation”.

23 jurisdictions – comprising the usual OFC’s - are identified as sink OFC’s and 5 as conduit OFCs. The latter ones “cannibalize the majority of corporate offshore investment” and they are the Netherlands, the United Kingdom, Ireland, Switzerland and Singapore. Notably the United Kingdom is rarely considered an OFC. These countries facilitate the transfer of value from and to sink OFCs. The study further shows that the Netherlands and Luxembourg serve European countries, Hong Kong (and some other sink OFCs) serve Asian countries, and the United Kingdom serves as an integrator between Europe and Asia.

The data from the Offshore Leaks Database, supplemented by FDI statistics, while supporting the concept of sink and conduit OFC’s, does strongly indicate that the distinction between the two is not as black and white as presented by (Garcia-Bernardo *et al.*, 2017). It is likely that majority if not all of the OFC’s do serve as both conduit and sink OFC’s to some extent at one point or another. While this paper does not attempt to provide a methodology for identifying sink and conduit OFC’s it is however important to highlight this distinction in the roles that OFC’s play.

4.4. COMPETITIVE STRATEGIES BETWEEN OFC'S

In furtherance of the previous discussion on conduit vs sink OFC's, different OFC's have adopted niche strategies to differentiate themselves and garner a competitive edge. Some of these strategies are described in detail below as presented in (Palan, et al., 2010)

4.4.1. INCORPORATION LOCATIONS.

These OFC's are used primarily for the registration of SPV's that are in turn used in transactions recorded in other OFC's. They tend to be associated with very low effective regulation. Such OFC's include Montserrat and Anguilla, and are characterized by a lack of expertise to service customers who use entities registered in their location.

4.4.2. REGISTRATION CENTRES.

These OFC's are used to invest local money in its country of origin in order to take advantage of a preferential tax regime in a practice commonly known as "round tripping." As is discussed in detail in section 5.2 Who is using the BVI the Chinese use the BVI for such purposes. Other examples are Panama to serve the U.S. market, and Jersey to target the London market, while Vanuatu serves the Australian market. In contrast to incorporation locations, these places have developed local expertise to service customers who use entities registered in their location.

4.4.3. SPECIALIST SERVICE PROVIDERS

These OFC's seek to attract a specific type of industry or activity. For example, Bermuda and Guernsey target the reinsurance market, the Cayman Islands the hedge fund industry, and the Isle of Man targets companies floating on the UK's Alternative Investment Market (AIM).

4.4.4. MARKET ENTRY CONDUITS.

These OFC's seek to earn a margin from the routing of transactions through their domain. Most seek to exploit their network of double tax treaties in the process. These include Malta and Cyprus, which compete for funds routed from the developing world into the EU; Mauritius, which is a conduit for investment in India; the Netherlands, which acts as a location for holding companies for investment throughout Europe; and Belgium.

5. THE CASE OF THE BRITISH VIRGIN ISLANDS

From the analysis of the Offshore Leaks Database in the previous section of this paper, the BVI is identified as the most dominant OFC both by FDI inflows and by number of entities registered there. To put this dominance in perspective, the BVI's FDI inflows of US$59b exceeded those of significantly larger economies such as Germany (US$52b), Canada (US$34b) and India (US$44b) for the same period reviewed. Comparing BVI FDI inflows against those of the next largest OFC's further serves to illustrate this dominance. FDI flows for the Cayman Islands (US$45b), Luxemburg (US$27b) and Panama (US$6b) do not compare favorably against those of the BVI. This disparity serves to reinforce the relative importance and dominance of the BVI as an OFC. This section therefore examines the role of the BVI as an OFC.

5.1. Background of The BVI

Geographically, the BVI is a BOT in the Caribbean, to the east of Puerto Rico. As a BOT, the BVI falls under the jurisdiction and sovereignty of the United Kingdom but remains internally self-governing, with the UK retaining responsibility for defense and foreign relations. Economically, the BVI relies on tourism and financial services and its residents enjoy a high standard of living.

The BVI offers a favorable taxation system with Section 242 (1) and (2) of the BVI Business Companies Act stating *inter allia:*

> *……] all dividends, interest, rents, royalties, compensations and other amounts paid by a company and capital gains realized with respect to any shares, debt obligations or other securities of a company are exempt from all provisions of the Income Tax Ordinance. No estate, inheritance, succession or gift tax is payable with respect to any shares, debt obligations or other securities of a company*.

This means that there are no capital gains, income, inheritance, succession or gift taxes levied in the BVI.

5.2. WHO IS USING THE BVI

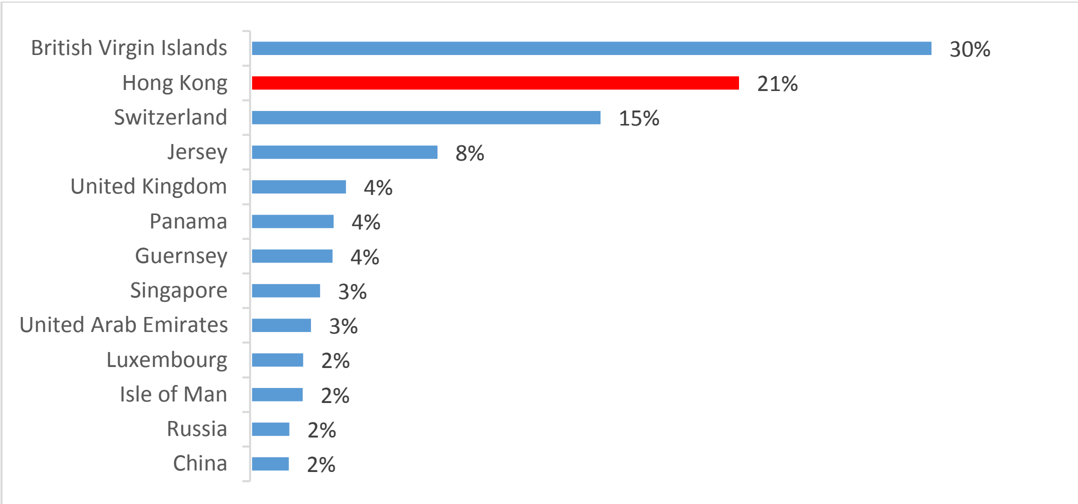

Figure 4 Country of Origin of entities registered in the BVI - Offshore Leaks Database

Results from an analysis of the offshore leaks database indicate that most entities registered in the BVI have their ownership in the BVI (Figure 4) As discussed in previous sections, this relates to a practice prevalent in OFC's designed to obscure the beneficial ownership through a string of ownership of companies. Disregarding the BVI, the Offshore Leaks Data indicates that Hong Kong is the largest source of ownership for entities registered in the BVI. This view is further supported by an analysis of FDI flows (Figure 5) with Hong Kong being the largest source of FDI inflows into the BVI. Similarly, statistics from UNCTAD indicate that Hong Kong is not only the largest recipient of FDI outflows from the BVI but also the largest holder of FDI stock in the BVI.

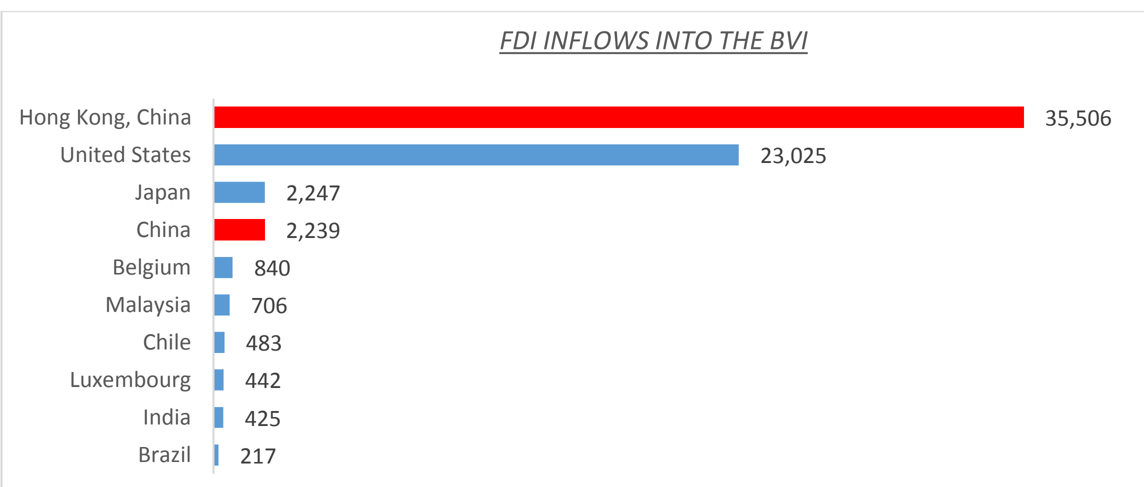

Figure 5 Source country of FDI Inflows into BVI 2012 (Source; UNCTAD)

Data collected by (UNCTAD, 2018) indicates that China is the largest holder of FDI stock in Hong Kong. This would indicate that Hong Kong serves as a conduit OFC for Chinese funds, which are then routed to the BVI. This, when considered with the fact that for the period when statistics are available, Mainland China was also the 4th largest supplier of FDI into the BVI, it is not unreasonable to conclude that majority of the funds flowing and held in the BVI are of Chinese origin.

Chinese use of the BVI and other OFC’s such as Hong Kong can be explained by the fact that China maintains a "closed" capital account, meaning that companies, banks, and individuals cannot move money in or out of the country except in accordance with strict rules. Such policies, including “Measures for the Administration of Financial Institutions' Reporting of High-Value Transactions and Suspicious Transactions” issued by the People’s Bank of China. These restrictions have therefore necessitated any Chinese corporation or individual intending to make overseas investments must do so using funds already located outside of China, usually in places such as Hong Kong or the BVI.

5.3. Competitive Advantage Of The BVI

Several factors have contributed to the dominance of the BVI as an OFC.

A key attraction for the BVI is secrecy and security provided by the absence of double taxation agreements with any other countries (except for Japan and Switzerland, which are old and unenforceable). This means that the BVI is under no requirement to disclose or share any information about income, profits or other transactions of any BVI entity, directors, shareholder or beneficial owner.

The BVI, however, does have bilateral information sharing agreements. These include Tax Information Exchange Agreements (TIEA) with more than 20 countries, including the USA, UK, Canada, China, France, Germany and others. Information sharing according to most of these agreements is however not automatic and the requesting party must follow a complicated procedure to obtain it. The requesting party must identify the suspected person and demonstrate realistic grounds for believing that the requested information is held by the BVI. No information is disclosed based on mere suspicions of tax evasion. The disclosed information may not exceed the requested. Therefore, the BVI can only confirm the information that the foreign Government already has in its possession and will not provide any additional information beyond that which is held by the foreign government already. This aspect of the BVI provides secrecy to those investors interested in it.

Additionally, being a BOT, the influence and oversight of the UK has provided not only political stability but also allowed the BVI to maintain a reputation as a well regulated and clean environment. This along with the BVI's long-standing history and reputation has led to the widespread familiarity and acceptance of BVI structures and laws. BVI securities laws are widely recognized by global regulators allowing BVI companies to list their shares in several global exchanges including the London Stock Exchange, LSE's AIM exchange, the New York Stock Exchange, NASDAQ, the International Securities Exchange, the Toronto Stock Exchange, and the Hong Kong Stock Exchange.

The BVI's use of common law legal principles based off the UK's system of jurisprudence has meant that any lawyer with an understanding of common law legal principles can easily understand the laws that govern BVI structures. Similarly, the BVI does not impose a double layer of regulation. For example, there are no additional public filing requirement for listed companies. BVI companies are extremely flexible in their structure and handling and there are very few prescriptive statutory requirements. The BVI also does not impose stamp duty (except for land transactions in the BVI itself), nor restrict BVI SPV's from doing business anywhere in the world. The fact that there is no additional layer of tax or regulation makes incorporation, and ongoing costs of using a BVI entity very low.

5.4. Types Of BVI Structures

5.4.1. British Virgin Islands Business Company (BVI BC)

The British Virgin Islands Business Company (BVI BC) is widely considered as the most popular form of legal structure in the world. BVI BC's are available to residents of any country in the world and can be formed as a continuation of another company in another part of the world. They do not levy any corporate, capital gains, profit, gift, sales or inheritance tax. The main features of a BVI BC are summarized below:

CHARACTERISTIC	DESCRIPTION
Taxation	• Exempt from BVI income tax, all dividends, interest, rents, royalties, compensations and other amounts paid by a company, all capital gains. • No estate, inheritance, succession or gift tax. • No stamp duty, with exception for land-ownership transactions in BVI.
Structure and Operations	• Requires a minimum of one owner, one shareholder, and one director all of whom can be the same person. • The shareholders, directors and officers of a BVI Business Company may be individuals or corporations and of any nationality. • The shareholder's or director's meetings need not be held in the BVI • No requirement for an Annual General Meeting. • Meetings can be held by telephone or other electronic means; alternatively, directors as well as shareholders may vote by proxy.
Provisions against confiscation	• Foreign Government or authority seizure of company shares, or any other interest in the Company in connection with nationalization, expropriation, confiscatory tax, or other government charge not recognized or enforceable
Accounting Records	• No obligation to prepare or file financial accounts. However, records that are sufficient to show and explain the Company's transactions and financial position required • do not have to be kept in the BVI • No requirement to file or make public any commercial or financial information of the Company. • No auditing requirements.
Types of Companies	• company limited by shares, • company limited by guarantee • unlimited company • segregated portfolio company • Restricted Purpose Company.
operational objects	• No requirement to specify the operational objects of the BVI Business Company in the foundation documents of the Company (Memorandum and Articles of Association).

Table 5 Characteristics of BVI BC's source Maples Law Firm:

5.4.2. BVI Trusts

Trusts are a legal arrangement that distinguish between the legal and beneficial ownership of property. Legal ownership is transferred to a trustee who manages and administers the property for the benefit of the beneficiaries, or for the furtherance of certain purposes. This arrangement is intended for the safekeeping, management and eventual disposal of property.

The BVI is a leading jurisdiction for the establishment and management of trusts. The "VISTA" trust offers a form of trust unique to the BVI, which is particularly attractive for holding shares in BVI, incorporated companies. Additionally, the BVI has a sophisticated professional trust sector, modern trusts legislation and an effective judicial system. There is a specialist Commercial Court that handles trusts matters, and ultimate appeals to the Privy Council in the United Kingdom.

The principles of English common law and equity, both with respect to trusts and generally, apply in the BVI subject to variation by local statute. The principal trusts legislation is the Trustee Act (Chapter 303 of the Laws of the Virgin Islands), as amended (the "Trustee Act") and VISTA, and these are supported by a body of case law from the BVI courts. BVI trusts are generally administered by professional corporate trustees regulated by the BVI Financial Services Commission ("FSC"), but are also often administered by trustees in other jurisdictions.

Common Types of BVI Trusts

Type	Details
Discretionary Trusts	• Specify in the trust instrument the precise circumstances in which beneficiaries are to be given the income and/or capital of the trust fund
Fixed interest trusts	• Trustees given wide powers to administer the assets and to distribute them at their discretion. • Trustees will usually be guided by a letter of wishes from the settlor setting out his or her wishes regarding the manner in which the trust fund is to be administered and distributed. • Letters of wishes can be updated from time to time.
VISTA trusts	• Unique to the BVI • Enables settlors to establish trusts designed to limit the responsibility of trustees from intervening in the management and affairs of an underlying BVI company whose shares form part of the trust fund • In using a VISTA trust the settlor can obtain the benefits of the trust mechanism for effective estate and succession planning without giving up effective control (or being subjected to unwelcome trustee interference) in relation to the family business or the assets held in the BVI company.
Non-charitable purpose trusts	• In a private wealth context such trusts may be used to collect and protect family heirlooms or antiques, or to hold certain assets such as the shares in a family trading company or private trust company or to pursue philanthropic purposes that may not fall within the traditional heads of charity. • An enforcer is required to be appointed to enforce the terms of a trust in relation to its non-charitable purposes.

Private trust companies (PTC)	• The settlor establishes a private company in the BVI to act as trustee of one or more family trusts. • The settlor, members of his family and trusted advisers can serve on the board of directors and basically control the PTC rather than surrender such control to a third party service provider. • The PTC offers many benefits such as the ability of the settlor or his or her trusted advisers to be closely involved with the trust structure, in-house specialist knowledge and expertise, added confidentiality (where there are acute sensitivities), continuity, flexibility and potential cost efficiencies.

Table 6 Types of BVI Trusts

NB: The settlor (or grantor) of a trust is the owner of the assets to be placed or 'settled' on trust. The settlor creates the trust and may benefit under its terms. The assets settled on trust comprise the trust fund. The trustees are the individuals or companies to which the legal ownership of the property is transferred and who are empowered to hold, administer and distribute such assets in accordance with the terms of the trust. A trust is normally documented by a trust instrument or trust deed which sets out the terms on which the settlor and the trustees have agreed that the latter will hold and administer the trust fund. The trust instrument will generally identify the beneficiaries of the trust, that is, those persons intended to benefit from the trust fund, and/or the purposes the trust was established to further.

5.4.3. BVI Partnerships

A general partnership has general partners with unlimited liability. There is no requirement by statute for a general partnership to be registered or have a formal/written partnership agreement in the BVI.

A limited partnership includes one or more general partners, whose liability is unlimited for all the business's debts and obligations and has authority to manage the partnership's business, and one or more limited partners who are not involved in the running of the business and have limited liability. There is a requirement for limited partnerships to be registered and have a formal written agreement in the BVI.

The BVI enacted a new Limited Partnership Act in 2017 replacing the limited partnership provisions found at Part VI of the Partnership Act, 1996.

The key characteristics of this new law include:

- The ability to choose whether a limited partnership is formed with or without legal personality.

- The ability to publicly register a charge against a limited partnership with legal personality and obtain priority under BVI law over subsequent charges as a result. *This ability and the certainty on priority is a feature unique to BVI law.*
- The ability to merge or consolidate limited partnerships; migrate existing limited partnerships to and from the BVI; compulsorily redeem minority interests; and enter into schemes and plans of arrangement, in each case in a fashion similar to that applicable to BVI companies, which is another feature unique to BVI law.
- Giving general and limited partner investors greater flexibility to define their roles, liabilities and limitations in respect of the limited partnership and its activities. This includes an extensive list of activities that limited partners may engage in without being considered as participants in the management of the limited partnership, and thus risking their limited liability.

5.5. Reasons For Using The BVI to Structure Real Estate Transactions – Perspective of Non-Resident UK Property Owner

Investors using OFC's rely on SPV's to structure real estate transactions. In the case of the BVI, we refer to an SPV as any legal structure established for a specific purpose in the BVI. The main reasons discussed from the perspective of a non-resident (to the UK) beneficial owner of UK property are discussed below.

Firstly, SPV's offer a layer of confidentiality and separation between the property and the beneficial owner. HM Land Registry maintains ownership and other details relating to the title of the property including the name and address of the owner and the price paid. This register is open to public inspection. Most sophisticated property buyers do not want their names as owners publicly available for security and general confidentiality reasons. Where the title is in the name of an offshore SPV, searches at the Land Registry can only reveal the name of the SPV thereby masking the beneficial ownership.

Noteworthy is that OFC's have been coming under increasing pressure to disclose the beneficial ownership behind the SPV's. The UK's 14 overseas territories will have to introduce public registers of beneficial ownership by the end of 2020 failing which the U.K. government will issue an order in council to force the territories to do so. (Cayman Compass, 2018)

Secondly, for UK property, there are several tax advantages. Capital gains on commercial property made by a non-UK investor are not subject to tax. Therefore, a non-UK SPV would not incur Capital Gains Taxes subject to two key conditions. That the investor must not be engaged in 'trading' activity in relation to the property in question- where trading is defined as material redevelopment of the property or an intention at the time of purchase to sell the property within the first few years after acquisition. Management and control of the non-UK entity must also take place outside the UK. Therefore, while UK agents may take day-to-day decisions in the UK, any strategic decisions must be taken outside the UK. Similarly, stamp duty land tax (SDLT) can be avoided by selling shares in an SPV holding the property. SDLT is levied at 5% on the sale of a property for properties whose value exceed £1,000,000, 7% for property exceeding £2M and 15% if the property value is more than £2M. Contracts may be structured to require the buyer to share in this benefit by requiring the buyer to pay a proportion of the SDLT saved to the seller.

BVI SPV's are also used for future planning for tax purposes. SPV's can be structured in many different ways, for example to hold the shares in the owning company via a trust, foundation or nominee structure, which can be beneficial from an inheritance tax perspective depending on the domicile of the ultimate beneficial owner. Noteworthy, is that prior to April 2017, for UK non-residents, residential property held via an SPV, was not considered an asset for UK-based inheritance tax purposes leading to avoidance of inheritance tax. However, subsequent to April 2017 the government announced plans to close this loophole.

BVI SPV's are also used to minimize tax liability in the UK, especially for individuals. For property owned by a BVI SPV, only the basic rate of UK income tax (20%) will apply regardless of the level of income. This can result in a substantial saving when compared with personal ownership under which the banded UK income tax rates (up to 50%) will apply.

6. OFC'S AND THE UK

Real estate in global cities has evolved into vehicles where global investors store their capital. This is primarily because real estate in these locations is perceived as providing a higher liquidity than in other locations.

Recent reports by Knight Frank (Knight Frank, 2015), JLL (Bloxam, 2018), INREV, PREA and ANREV and AFIRE all found London to be the number one target for global capital for real estate. This section therefore examines the real estate landscape in the UK in general and London specifically, and the role that OFC's have played in shaping it.

6.1. OFC'S USED TO REGISTER PROPERTY IN THE UK AND VALUE

Using data from HM Land Registry we find that there were approximately 97,000 properties in the UK where the registered legal owner is an overseas company. Of these properties, over 82,000 (80%) are held through structures domiciled in OFC's, indicating that OFC's are no longer exotic and peripheral but rather that they have become increasingly mainstream and part of the ordinary dealings when transacting real estate in prime locations.

Of the properties transacted, over 23,000 (23%) (Figure 6) were owned through BVI registered structures, more than anywhere else in the world. Similar to the conclusions reached in previous sections of this paper about the dominance of the BVI as an OFC, the BVI appears to also be the preferred location to register a company for real estate purchase purposes.

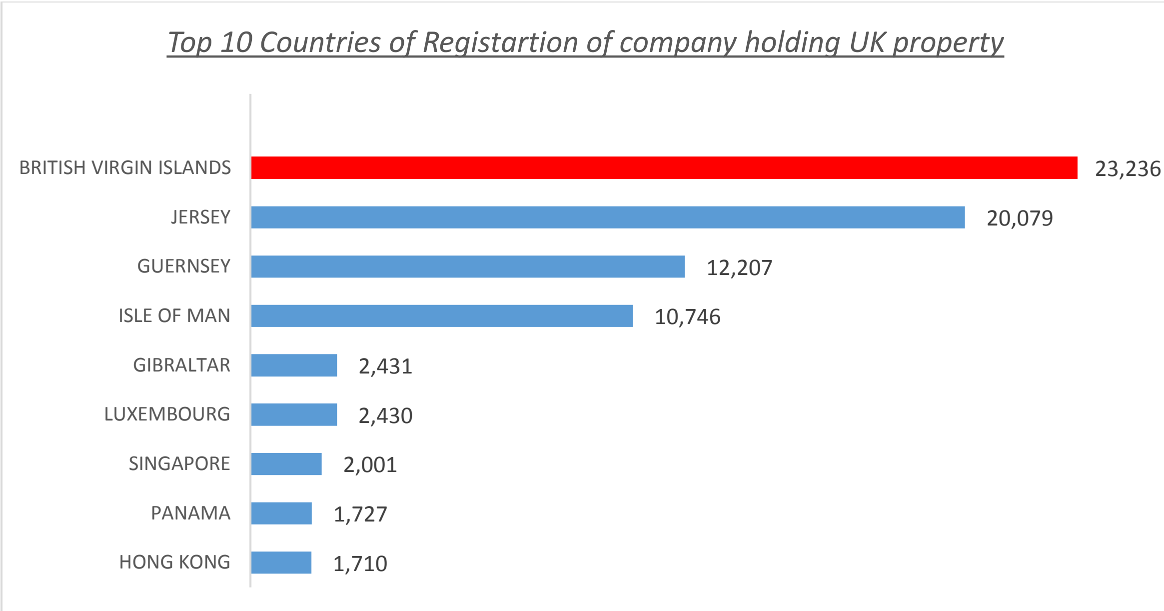

Figure 6 Top 10 countries of registration of companies holding real estate in the UK

Noteworthy, is that all of the top 4 locations where UK property is held are either crown dependencies or BOT's. These are the BVI, Jersey, Guernsey and the Isle of Man which collectively represent just under 70% of the total number of properties in the register. This points to a synergistic relationship between these OFC's and the UK. There are arguments to suggest that such OFC's facilitate tax evasion, tax avoidance, money laundering, illegal flight of capital, degradation of regulation, instability and economic underdevelopment and therefore lower the welfare of the UK. ((Hampton, 1996); (Hampton & Christensen, 2002); (Oxfam, 2000); (Palan, 2002); (Sikka, 2003); Baker, 20 (Baker, 2005); (Christensen, 2006); (Stark, 2009); (Palan, et al., 2010), (Slemrod & Wilson, 2006) but these are countered by arguments that this is a symbiotic relationship where both territories benefit. The counter arguments often point out that although such OFC's are largely autonomous, it is inconceivable that they would pursue policies or activities that would be harmful to the UK's interest- and even if they did, that the UK would be a hapless, helpless bystander (Dharmapala, 2008).

As stated in the data section of this paper, only 27,000 of the 97,000 properties listed in the register had the transaction price indicated. Of these, 22,000 were transacted through OFC's with a combined transaction value of £50 billion and an average transaction price of £2.3 million – this against a national average value of £230k.

Of the properties transacted through OFC’s, Luxembourg had the highest average price per property at £10.2 million but with only 660 properties transacted. This is against an average price per property of £2m for all other OFC’s. This would indicate that Luxembourg is a niche real estate OFC catering to a more affluent demographic. Jersey saw the highest combined value of transacted properties with a total value of £17.4 billion transacted on 4,500 properties.

JURISDICTION	TOTAL VALUE (£M)	# OF PROPERTIES	AVERAGE PRICE /PROPERTY (£M)
JERSEY	17,420	4,525	3.85
BRITISH VIRGIN ISLANDS	13,665	9,017	1.52
LUXEMBOURG	6,751	660	10.23
GUERNSEY	5,486	3,124	1.76
ISLE OF MAN	5,123	3,243	1.58
GIBRALTAR	775	685	1.13
HONG KONG	602	517	1.16
Total	**49,822**	**21,771**	**2.29**

Table 7 Value of property transacted in the UK through OFC’s

6.2. Spatial Distribution Of Properties transacted using OFC's

Using the postal codes from the Land registry, we plotted the spatial distribution of the properties into a mapping application within MS Excel. These were heat mapped and presented below. Figure 7 presents the spatial distribution of the property held through an OFC across the UK. Figure 8 presents the spatial distribution within London.

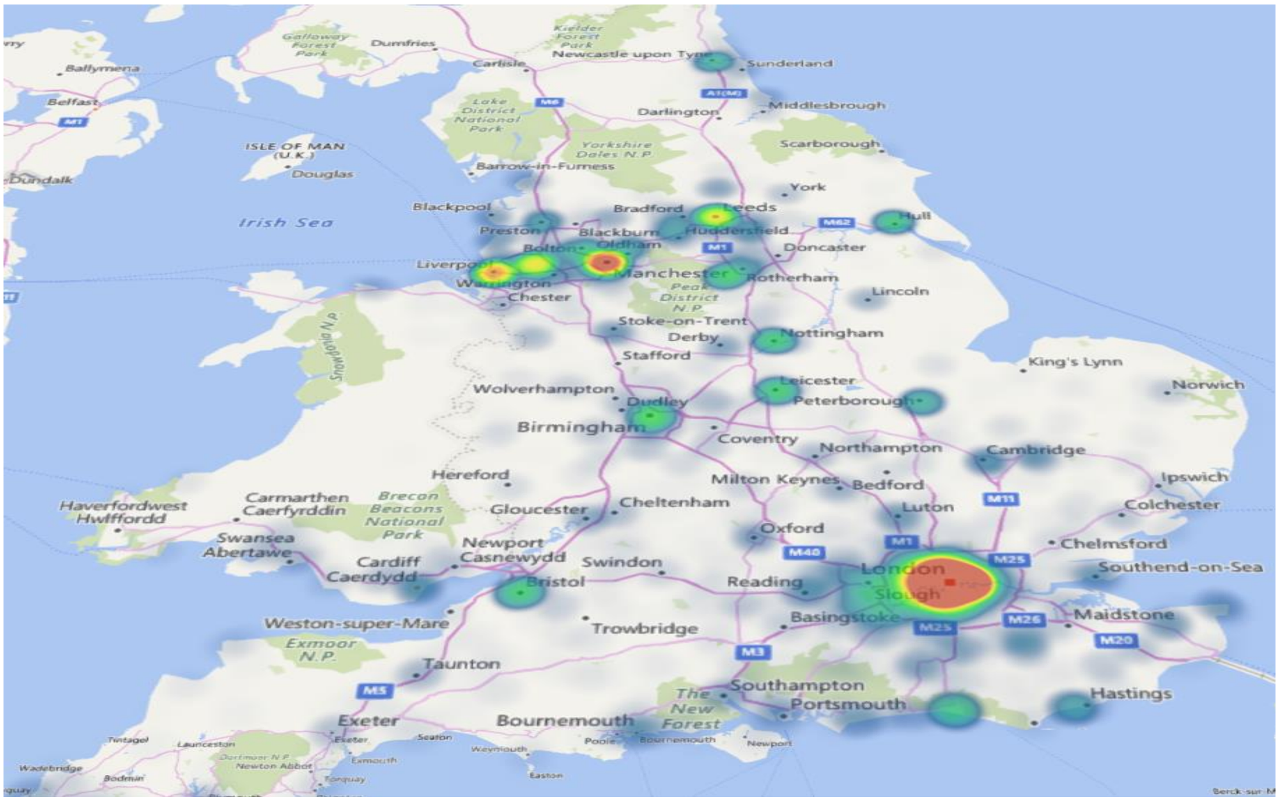

Figure 7 Spatial distribution of property owned through OFC's in the UK – by number of properties

In the UK, unsurprisingly, London has the highest number of properties transacted through OFC's - representing just over 50% of all the properties transacted through OFC's. Outside London, Manchester and Liverpool saw the most activity in terms of number of properties transacted through OFC's. This is summarized in the heat map in Figure 7 which plots the postal codes of the properties transacted, with regions where more properties are transacted having a deeper red color while the opposite end of the spectrum is represented by a lighter green color.

Within London, the properties transacted were concentrated within central London occupying an area between Earl's court to the West, Regent's park to the North, Canary wharf to the East and Battersea park to the South- an area of roughly 40 square kilometers. This is summarized in Figure 8 below.

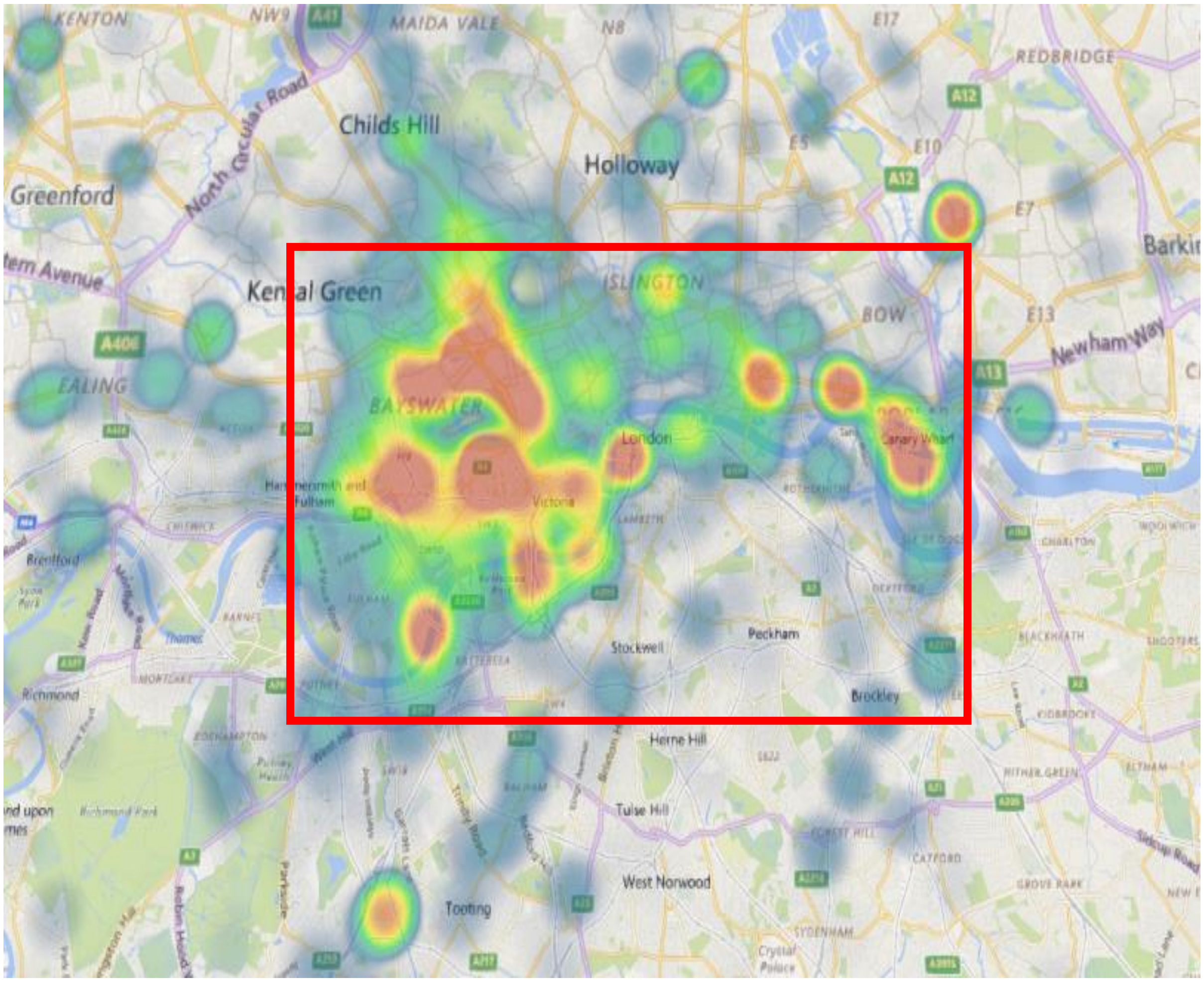

Figure 8 Spatial distribution of properties transacted through OFC's in London

This area in London corresponds to what is generally considered Prime Central London. Although there is no universally accepted definition for the term Prime Central London, most valuation surveyors and estate agents agree that Prime Central London includes the City of Westminster, the Royal Borough of Kensington and Chelsea, and parts of the boroughs of Hammersmith and Fulham, and Camden.

This relatively small geographic accounts for most of the properties transacted through OFC's. Arguably, this region most likely accounts for the highest cumulative value in real estate transactions in the world in the recent past especially given the fact that London is widely considered to be the number one target for global capital for real estate.

6.3. Notable Transactions using OFC's

6.3.1. Top 10 transactions with sale prices indicated

Property	District	Proprietor Name	Country Incorporated	Price Paid £
New Scotland Yard, 8-10 Broadway, London (SW1H 0GB)	City Of Westminster	Bl Development Limited	Jersey	370,000,000
Olympia Exhibition Halls, Hammersmith Road, London (W14 8UX)	Hammersmith and Fulham	Olympus Property Holding Ltd	Jersey	280,000,000
168 Fenchurch Street, London and 70 Gracechurch Street, London	City of London	Advanced Idea Holdings Limited	British Virgin Islands	270,798,594
33 to 41 Old Broad Street and 1 to 6 Union Court, London (EC2N 1DY)	City of London	Sea Profit Holdings Limited	British Virgin Islands	260,000,000
Parcel BP2, 5 Churchill Place, Canary Wharf, London	Tower Hamlets	Spencer Holdings Limited	Bermuda	257,240,000
123 Buckingham Palace Road, London (SW1W 9SR)	City of Westminster	Gc 123 Bpr Ltd	British Virgin Islands	215,399,999
Ground Floor and Basement, 90 Southwark Street, London (SE1 0TF)	Southwark	Rreef Bankside Iii Limited	Jersey	180,364,651
90 Southwark Street, London (SE1 0TF)	Southwark	Rreef Bankside Iii Limited	Jersey	180,364,651
Mitre House, 120 Cheapside and Compter House 4-9 Wood Street, London	City of London	One Wood Street Acquico 1 S.A.R.L	Luxembourg	179,000,000
25 Gresham Street, London (EC2V 7HN)	City of London	Henglida Investments Limited	British Virgin Islands	160,000,000

Table 8 Top 10 transactions by OFC in UK -sorted by price

Of the properties that disclosed a transaction price, the top 10 by transaction price are presented in Table 8 above. Notably, all but one of the 10 were transacted using British controlled OFC's and that most of the 10 properties were within Prime Central London.

Of these, the most expensive was the former headquarters of the Metropolitan Police, New Scotland Yard, at 8-10 Broadway. The site was purchased by The Abu Dhabi Financial Group in 2014 for £370m from the Mayor of London's office through a Jersey-based SPV. The 1967 multi-storey block was demolished to make way for luxury one to five bedroom apartments. These range in price from £1.5m to more than £10m (Verity and Stylianou, 2018).

6.3.2. Recent transactions using OFC

Other notable transactions concluded in London using OFC's include the sale of the Leadenhall Building, commonly known as "The Cheesegrater" for £1.15bn. Hong Kong-based SPV, CC Land, purchased the Leadenhall Building, 122 Leadenhall Street, for £1.15bn. (Bloxam, 2018). Additionally, from the Land

Registry database are entries on June 16, 2017 to register the airspace and leasehold for 122 Leadenhall Street by Fortune Sail International Limited, a BVI registered SPV.

Similarly, 20 Fenchurch Street, the London skyscraper nicknamed the 'Walkie Talkie', sold for almost £1.3bn in the UK's largest ever office deal. Infinitus Property Investment, a Hong Kong-based OFC owned by LKK Health Products Group, bought the 37-storey building from Land Securities and the Canary Wharf Group, the two companies who completed its construction in 2014. (Bloxam, 2018). This further supports the conclusions reached in previous sections of this paper that Chinese money, using structures in OFC's such as Hong Kong and the BVI, is behind much of the recent super prime real estate transactions in London and the UK.

The leasehold of Admiralty Arch, the former government building off Trafalgar Square that straddles one end of The Mall, was sold to hotel developer Prime Investments for £141m. It is registered to a Guernsey-based entity, Admiralty Arch Hotels Ltd.

6.4. NOTABLE SPV'S

SPV	# of properties listed	Total value of properties	OFC
Bnp Paribas Securities Services Trust Company (Jersey) Limited	406	751,390,096	JERSEY
Kleinwort Benson (Guernsey) Limited	273	732,549,160	GUERNSEY
Mansford Core 2 Managing Trustee No 1 Limited	135	726,576,463	JERSEY
Sipl Sunrise Propco S.A R.L.	41	613,230,000	LUXEMBOURG
Kfim Liput 1 Limited	81	582,815,081	JERSEY
Bnp Paribas Securities Services Trust Company Limited	266	412,007,532	JERSEY
Bl Development Limited	1	370,000,000	JERSEY
Rreef Bankside Iii Limited	3	360,729,302	JERSEY
Frep 3 (Stratford) Limited	5	283,103,481	JERSEY
Olympus Property Holding Ltd	4	280,000,000	JERSEY

Table 9 Top 10 SPV's by transaction value

Of the transactions with a sale price indicated, we noted several SPV's holding multiple properties. The top 10 SPV's ranked by total value of property held are presented in Table 9 above. Of these, the highest ranked SPV by number of properties held, BNP Paribas Securities Services Trust Company (Jersey) Limited is noted to have been incorporated in Jersey and directly holds over 400 properties with a combined transaction value of £751 million. Not much information is available about the ownership or mandate of this SPV. This opaqueness provided by OFC registered SPV's is part of their attraction. This SPV also highlights the role played by major financial institutions such as BNP Paribas in facilitating transactions through OFC's.

Another notable SPV is SIPL Sunrise Propco S.A R.L., a Luxembourg entity. This entity is owned by Sterling Investment Partners a Jersey registered company listed in the Channel Islands Stock Exchange that invests in senior housing across the UK.

Worth noting is that the practice of holding multiple properties through a single SPV is not common. Given that the transactional costs of setting up an OFC based SPV are not prohibitive, most rational investors choose to ring fence the liabilities of the different properties by holding each or a few properties through different SPV's. In ring-fencing properties held within an SPV, the SPV usually holds only those assets and conducts no other business other than as relates to the ring-fenced assets. With this structure, there is a greater likelihood that the ring-fenced assets and the cash flows they generate cannot be used to satisfy the creditors of a bankrupt parent or affiliate of the SPV than if the assets were not ring-fenced.

An analysis of the Land Registry data indicates that of the 34,000 SPV's listed in it over 65% held a single property and that less than 3% held more than 10 properties per SPV. This would indicate that most investors do ring-fence their liabilities.

6.5. Effects of OFC's on the UK

The most obvious consequence of transacting UK real estate throughg OFC's is the loss of taxation revenue. As discussed in section 5.5 *Reasons For Using The BVI to Structure Real Estate Transactions*, capital gains taxes, SDLT, and income tax can be avoided or minimized by structuring the transaction through offshore SPV's. This has the effect of denying the UK government of taxation revenue.

Other criticisms levelled against OFC's include opaqueness surrounding the beneficial ownership of real estate, which has allowed corrupt individuals to use locations such as London as a safe haven for their illicit wealth. It has also been argued that the rampant growth in London property prices is driven by illicitly obtained wealth laundered through complex structures and transactions in OFC's in order to conceal the beneficial owners of the real estate. These inflows through OFC's have served to distort market prices making property prices unaffordable for most residents. Additionally, these distortions are not limited to the high end or luxury property market segment. When property prices are bid up for the most expensive properties, the strata just under this group will inflate the prices for the next class of houses and so on, resulting in out-pricing in subsequent price ranges. (Green & Bentley, 2014).

It has also been argued that prioritizing the building of luxury developments by U.K. developers over desperately needed affordable accommodation is as a direct response to the demand for prime properties, often transacted through offshore registered vehicles. The success of high-end residential units stimulates builders and developers to focus their attention on ''high-value developments while ignoring the undersupply at lower levels of the market'' (Green & Bentley, 2014)

Similarly, buyers of high-end properties using OFC based SPV's do not participate in the ''full range of economic, political, social, and environmental responsibilities'' (Hay and Muller, 2012: 79) of a community as they are seldom resident. This leads to ghost communities, in which the presence of unoccupied houses with foreign owners, leads to a decline in local taxes, affecting local businesses and community life.

7. Conclusion

This paper set to examine the role that OFC's play especially in regard to real estate by rendering explicit pertinent questions such as what are the most dominant OFC's; who is using these OFC's; and, how and where these OFC's are being used.

We find that OFC's are no longer exotic and peripheral players but rather have become increasingly mainstream and part of ordinary dealings when transacting real estate in prime locations. Using data from the offshore leaks database supported by FDI data from the World Bank, we identify the BVI as the most dominant OFC. A more in-depth examination of the BVI indicates that most companies registered there have their ownership in Hong Kong. This conclusion is supported by the fact that Hong Kong is not only the largest source and recipient of FDI flows but is also the largest holder of FDI stock in the BVI.

Given that China (other than the BVI) is the largest source of FDI flows and holder of FDI stock in Hong Kong, it is not irrational to conclude that majority of the funds finding their way into the BVI are of Chinese origin. Chinese use of the BVI and other OFC's such as Hong Kong can be explained by the fact that China maintains strict restrictions on the movement of money in and out of the country. These restrictions have therefore meant that Chinese overseas investments are primarily made using funds that are already located outside of China, usually in OFC's such as Hong Kong or the BVI.

We examine the motivations for real estate investors to transact real estate using BVI SPV's from the perspective of a non-resident UK investor. We note that these motivations include providing a layer of confidentiality and separation between the property and the beneficial owner and for tax avoidance purposes. Tax avoidance includes minimizing or avoiding Capital Gains Tax, SDLT, inheritance and income tax.

Using data from the Land Registry, we note that the BVI appears to be the preferred location to register a company for real estate purchases in the UK. Further, we determine that London has the highest number of properties transacted through OFC's representing just over 50% of all the properties transacted through OFC's. Within London, we note that the properties transacted through OFC's are concentrated within central London occupying an area between Earl's court to the West, Regent's park to the North, Canary wharf to the East and Battersea park to the South- an area of roughly 40 square kilometers. This corresponds to what is generally considered Prime Central London which includes the City of Westminster, the Royal Borough of Kensington and Chelsea, and parts of the boroughs of Hammersmith and Fulham and Camden.

Taken at face value these results suggest that Chinese money, controlled or flowing through OFC's such as the BVI or Hong Kong, is at least partly behind the acquisition of real estate in Prime Central London and other parts of the UK. This assertion is supported by recent real estate transactions such as the sale of the Leadenhall Building, known commonly as "The Cheesegrater" for £1.15bn to a Hong Kong-based SPV. Similarly, breaking the record for the sale of a single building in the UK was the sale of 20 Fenchurch Street, nicknamed the 'Walkie Talkie', sold for almost £1.3bn to a Hong Kong based SPV.

We discuss the effects of transacting real estate using OFC's in the UK. These include the loss of taxation revenue to the government; distortion of property market prices driven by illicitly obtained wealth laundered through OFC's in order to conceal the beneficial ownership; undersupply of property at lower levels of the market as U.K. developers prioritizing the building of luxury developments; and, welfare costs brought about by buyers of high-end properties using OFC based SPV's not participating in the ''full range of economic, political, social, and environmental responsibilities. The presence of unoccupied houses owned by foreign owners, leads to a decline in local taxes, affecting local businesses and community life.

This study was limited in scope in that it was not able to address the question of whether OFC's were being used as conduits for sheltering or laundering illicitly obtained money. Based on the current state of available data and as OFC's by their very definition are secrecy jurisdictions, it is very difficult to reliably identify the beneficial ownership of property transacted through an OFC. Even with the work performed by groups such as the ICIJ, the people behind the offshore leaks database, the beneficial ownership is still shrouded in secrecy and convoluted through a string of ownership structures and proxy ownerships making it difficult to reliably identify the actual beneficial owner. While it is possible to identify the owner of an SPV, in many instances this owner is not the beneficial owner but rather another SPV or proxy. However, this is expected to change especially for the UK's 14 overseas territories, which will have to introduce public registers of beneficial ownership by the end of 2020 mandated by the UK. Once this register of beneficial ownership is in place, the beneficial ownership of real estate in London and other prime locations will be more reliably determined. This could be an interesting area for future academic research.

Another limitation of this study was data from the Land Registry did not include titles registered by private individuals or UK companies. The availability of this data would have allowed for a more complete picture allowing us to authoritatively conclude on the impact that OFC's have had on the real estate landscape in the UK.

Bibliography

Acton, G., 2017. *CNBC.* [Online]
Available at: https://www.cnbc.com/2016/04/11/panama-papers-shine-light-on-london-real-estate.html
[Accessed 11 November 2017].

Association of Certified Financial Crime Specialists, 2015. *Mapping money laundering in real estate,* s.l.: s.n.

Atkinson, R. & Burrows, R., 2014. A city in thrall to capital? London, Money-Power and Elites..

Baker, R., 2005. Capitalism's Achilles Hell: Dirty Money and How to Renew the Free Market System. *Wiley.*

Boffey, D., 2017. *EU blacklist names 17 tax havens and puts Caymans and Jersey on notice,* London: The Guardian.

Bloxam, R. (2018) 'London leads global real estate investment in 2017 26', (January), pp. 2017–2018.

Butler, T. & Lees, L., 2006. Super-gentrification in Barnsbury, London: Globalization and gentrifying global elites at the neighbourhood level.. *Transactions of the Institute of British Geographers,* 31(4), p. 467–487.

Cayman Compass, 2018. *UK to force Cayman, territories to make company owners public.* Georgetown: s.n.

Christensen, J., 2006. *Follow the money: how tax havens facilitate dirty money flows and distort global markets.* s.l., s.n.

D.Dorling, 2014. Inequality and the 1%.

Dharmapala, D. (2008) 'What problems and opportunities are created by tax havens', *Oxford Review of Economic Policy*, 24(4), pp. 661–679. doi: 10.1093/oxrep/grn031.

Democrat and Chronicle, 2017. *http://rochester.nydatabases.com/database/real-estate-database.* [Online]
[Accessed November 2017].

Dicken, P., 2011. Global shift: mapping the changing contours of the world economy. In: *Global shift: mapping the changing contours of the world economy.* s.l.:Global shift: mapping the changing contours of the world economy, p. 368.

Dufey, G. and Giddy, I. H. (1985) 'International Financial Planning: The Use of Market-Based Forecast', *Global Strategic Management: The Essentials*, pp. 268–279.

Errico, L. & Musalem, A., 1999. Offshore Banking: An Analysis of Micro- and Macro-Prudential Issues. *International Monetary Fund,* Volume IMF Working Paper No. 5.

EU- Secretariat, G. S. o. t. C., 2017. *consilium europa.* [Online]
Available at: http://www.consilium.europa.eu/media/31945/st15429en17.pdf
[Accessed 7 December 2017].

Fernandez, R., Hofman, A. and Aalbers, M. B. (2016a) 'London and New York as a safe deposit box for the transnational wealth elite', *Environment and Planning A*, 48(12), pp. 2443–2461. doi: 10.1177/0308518X16659479.

Fuller, B., 2017. *Cayman Compass.* [Online]
Available at: https://www.caymancompass.com/2017/11/16/premier-we-cannot-make-unreasonable-concessions-to-eu/?source=email&position=0
[Accessed 17 November 2017].

Garcia-Bernardo, J. *et al.* (2017) 'Uncovering offshore financial centers: Conduits and sinks in the global corporate ownership network', *Scientific Reports*. Springer US, 7(1), pp. 1–10. doi: 10.1038/s41598-017-06322-9.

Green, D. & Bentley, D., 2014. *Finding Shelter. Overseas investment in the UK housing market,* s.l.: s.n.

Hamnett, C., 2003. *Unequal City: London in the Global Arena.,* London: Routledge.

Hampton, M. P. (1996) 'Where Currents Meet : Development', 27(2), pp. 78–87.

Hampton, M. & Christensen, J., 2002. Offshore Pariahs? Small Island Economics, Tax Havens, and the Re-configuration of Global Finance.. *World Development,* 30(6), p. 16.

Harloe, M., Fainstein, S. & Gordon, I., 1992. *Divided cities: New York and London in the Contemporary World. Oxford,* Oxford: Blackwell..

Harvey, D., 2001. Globalization and the 'spatial fix'. *Geographische Revue,* Issue 2, pp. 23-30.

Hay, I. & Muller, S., 2012. 'That tiny, stratospheric apex that owns most of the world' – Exploring geographies of the super-rich. Geographical. *Geographical Research 50(1):,* 50(1), p. 75–88..

Hong, Q. & Smart, M., 2007. In Praise of Tax Havens: International Tax Planning and Foreign Direct Investment. *CESIfo Working Paper No. 1942.*

Houlder, V., 2016. *Financial Times.* [Online]
Available at: https://www.ft.com/content/100a2e4c-16bd-11e6-9d98-00386a18e39d
[Accessed 11 November 2017].

Hudson, M., Stanescu, I. & S, A.-B., (2014). Hidden in plain sight: New York just another Island Haven.

INTERNATIONAL MONETARY FUND, 2008. *A Report on the Assessment Program and Proposal for Integration with the Financial Sector Assessment Program,* s.l.: INTERNATIONAL MONETARY FUND.

Johnston, R. B., 1982. The Economics of the Euro-Market,. *St. Martin's Press.*

Knight Frank, 2015. *The Wealth Report 2015,* London: s.n.

LANE, P. R. M. G. M., 2011. Cross-Border Investment in Small International Financial Centres. *International Finance,* 4(2), pp. 301-330.

Lees, L., 2003. Super-gentrification: The case of Brooklyn Heights. New York City.. *Urban Studies,* 40(12), p. 2487–2509..

Leigh, D., Frayman, H. & Ball, J., 2012. *Who's buying Britain? Probe reveals real estate speculators hidden by offshore alchemy. Report.,* s.l.: International Consortium of Investigative Journalists.

Martin, R., 1999. The new economic geography of money. . In: *In R. Martin (ed.) Money and the space economy.* New York: Wiley, pp. 3-27.

McCarthy, I. S., 1979. Hosting Offshore Banks: Benefits and Costs. Volume IMF Working Paper No. 32..

NEHAMAS, N., 2016. *How secret offshore money helps fuel Miami's luxury real-estate boom.* [Online]
Available at: http://www.miamiherald.com/news/business/real-estate-news/article69248462.html
[Accessed 11 November 2016].

Organisation for Economic Cooperation and Development (OECD), 2013. *Addressing base erosion and Profit Shifting,* s.l.: Report for the Organisation for Economic Cooperation and Development. 12.

Osborne, H., 2017. *The Guardian Newspaper.* [Online]
Available at: https://www.theguardian.com/news/2017/nov/08/paradise-papers-schemes-avoid-tax-uk-property-deals-chiswick-park-blackstone
[Accessed 10 November 2017].

Oxfam, 2000. *Tax Havens: Realising the Hidden Billions for Poverty Eradication.* London, Offam.

Palan, R., 1998. 'Trying to have your cake and eating it: how and why the state system has created offshore',. *International Studies Quarterly,* pp. 625-644.

Palan, R., 2002. Tax havens and commercialisation of state sovereignty. *International Organisation,* 53(1), pp. 151-76.

Palan, R. M. R. C. C., 2010. Tax havens how globalization really works. *Cornell studies in money.*

Palan, R., Murphy, R. & Chavagneux, C., 2010. Tax Havens: How Globalization Really Works.. In: s.l.:Cornell University Press.

Park, Y. S., 1982. The Economics of Offshore Financial Center. *Columbia Journal of World Business,* Winter82, Vol. 17(Issue 4,), p. p31. .

Pryke, M., 2011. Geographies of Economic Growth II: Money and Finance. In: *The SAGE Handbook of Economic Geography.* London: Sage, pp. 286-302.

Roberts, S. M., 1995. Small Place, Big Money: The Cayman Islands and the International Financial System. *Economic Geography, ,* Vol. 71(No. 3), pp. 237-256.

Sassen, S., 1991. *The Global City: New York, London, Tokyo. Princeton,,* Princeton, NJ: Princeton University Press..

Sassen, S., 2014. *Expulsions: Brutality and Complexity in the Global Economy.,* Cambridge, MA: The Belknap Press of Harvard University Press..

Shaxson, N., 2013. A Tale of Two Londons..

Sikka, P. (2003) 'The Role Of Offshore Financial Centres In Globalization', *Accounting Forum*, 27(4), pp. 365–399. doi: 10.1046/j.1467-6303.2003.t01-2-00111.x.

Slemrod, J. & Wilson, J. D., 2006. Tax Competition with Parasitic Tax Havens. In: s.l.:s.n.

Stark, S., 2009. Hidden Truehand: How Corporations and Individuals Hide Assets and Money. In: s.l.:s.n.

Stone, J., 2016. *UK Business Insider.* [Online]
Available at: http://uk.businessinsider.com/david-cameron-says-it-is-unfair-to-criticise-british-controlled-tax-havens-2016-4
[Accessed 11 November 2017].

The International Consortium of Investigative Journalists, 2017. *Offshore Leaks.* [Online]
Available at: https://offshoreleaks.icij.org/pages/about
[Accessed 22 May 2018].

Transparency International UK (2015) *Corruption on Your Doorstep: How Corrupt Capital is Used to Buy Property in th UK*.

Tutchener, D. L. :. J., 2001. *Immigration, globalisation and house prices in Canada's gateway cities.,* s.l.: Housing Studies .

UNCTAD, 2014. *World Investment Report Investing in the SDGs: an Action Plan,* Geneva: United Nations.

UNCTAD, 2018. *Bilateral FDI Statistics.* [Online]
Available at: http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx
[Accessed 31 May 2018].

United Nations Office on Drugs and Crime (UNODC) , 2011. *Estimating Illicit Financial Flows Resulting from Drug Trafficking and Other Organized Crimes,* s.l.: s.n.

Verity, A. and Stylianou, N. (2018) 'Firms on Caribbean island chain own 23,000 UK properties - BBC News', (January). Available at: http://www.bbc.co.uk/news/business-42666274.

Wojcik, D., 2013. world, Where governance fails: Advanced business services and the offshore. *Progress in Human Geography,* 37(3), pp. 330-347.

Zoromé, A. (2007) 'Concept of Offshore Financial Centers: In Search of an Operational Definition', *IMF Working Paper*, 2007(07/87), p. 32. doi: 10.5089/9781451866513.001.